

## Message Text

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43

ACTION ARA-20

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

STR-08 CEA-02 SCEM-02 INT-08 DODE-00 PA-04 USIA-15

PRS-01 DRC-01 /193 W

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R 231701Z OCT 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 8944

INFO AMEMBASSY BERN

AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY LIMA

AMEMBASSY VIENNA

AMCONSUL GUAYAQUIL

USCINCSO

C O N F I D E N T I A L QUITO 5474

C O R R E C T E D C O P Y (TEXT)

E.O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: PETROLEUM REFERENCE PRICE INCREASED TO \$5.25 PER BARREL

REF: QUITO 3315 (NOTAL)

SUMMARY: GOE INCREASED PETROLEUM REFERENCE PRICE TO \$5.25 PER BARREL FROM \$3.60 EFFECTIVE OCTOBER 17. GOE EVIDENTLY ANTICIPATING RAPID RISE IN WORLD PETROLEUM PRICES. IMPACT ON GOE REVENUES WILL BE SUBSTANTIAL. PRICE OF ROYALTY OIL UNDER GOE CONTRACT WITH SWISS FIRM ERINAM APPARENTLY RISES TO \$6.66, GREATLY ENHANCING REVENUES OF ARMED FORCES. END SUMMARY.

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1. GOE ANNOUNCED THAT PETROLEUM REFERENCE PRICE HAS BEEN INCREASED TO \$5.25 PER BARREL (FOR 28 DEGREE GRAVITY CRUDE) FROM \$3.60 EFFECTIVE OCTOBER 17, 1973. ALTHOUGH NEW REFERENCE PRICE IS FORMALLY IN EFFECT UNTIL DECEMBER 31, 1973, GOE SPOKESMAN ACKNOWLEDGED THAT REFERENCE PRICE COULD BE INCREASED AGAIN AT ANY TIME. MINISTER OF NATURAL RESOURCES JARRIN DENIED TO THE PRESS THAT WAS IN MIDDLE EAST WAS A FACTOR IN MAGNITUDE OF REFERENCE PRICE INCREASE. HOWEVER, WELL-INFORMED EMBASSY SOURCE STATES THAT NEW REFERENCE PRICE IS 40 CENTS PER BARREL HIGHER THAN LEVEL RECOMMENDED TWO WEEKS AGO BY MINISTRY COMMITTEE CHARGED WITH STUDYING THE MATTER.

2. GOE STATEMENTS INDICATE THAT ON THE BASIS OF THE REFERENCE PRICE INCREASE, ERINAM WILL HAVE TO PAY \$6.66 PER BARREL UNDER ITS CONTRACT TO PURCHASE THE GOE'S ROYALTY SHARE OF CRUDE. THERE MAY BE SOME AMBIGUITY, HOWEVER. IN JULY THE GOE SPECIFIED THAT BIDS FOR THE ROYALTY CRUDE BE STATED IN TERMS OF THE REFERENCE PRICE PLUS SOME AMOUNT. ON THE CONTRARY, ERINAM (LIKE OTHER BIDDERS) MADE AN OFFER OF \$5.01 (I.E. \$1.41 ABOVE THE \$3.60 REFERENCE PRICE THEN IN EFFECT) IN LANGUAGE OMITTING MENTION OF THE REFERENCE PRICE. ACCORDING TO PRESS REPORTS, ERINAM REPRESENTATIVES WILL ARRIVE IN QUITO WITHIN A FEW DAYS TO DISCUSS THE MATTER.

3. RAPID INCREASE IN WORLD PETROLEUM PRICES IN 1973 IS GIVING ENORMOUS BOOST TO GOE PETROLEUM REVENUES, DESPITE THE FACT THAT PRODUCTION IS BELOW ANTICIPATED LEVELS. LATEST REFERENCE PRICE HIKE WOULD BRING IN ADDITIONAL REVENUE OF \$80 MILLION PER YEAR AT THE CURRENT RATE OF PRODUCTION, 210,000 BARRELS PER DAY AUGUST-OCTOBER. AT A REFERENCE PRICE OF \$5.25 PER BARREL, ANNUAL REVENUE WOULD BE \$255 MILLION, \$140 MILLION TO CENTRAL GOVERNMENT GENERAL REVENUES PLUS \$115 MILLION EARMARKED FOR PARTICULAR GOVERNMENT ENTITIES. FORMER REFERENCE PRICE OF \$3.60 WOULD GENERATE ANNUAL REVENUE OF \$175 MILLION.

4. ACTUAL PETROLEUM REVENUE INCREASE THROUGH TO 1974 WILL BE MUCH GREATER. DURING 1973 REFERENCE PRICE HAS RISEN FROM \$2.60 TO \$5.25. WE ESTIMATE 1973 GOVERNMENT PETROLEUM REVENUES AT \$135 MILLION. ASSUMING PRODUCTION OF 250,000 BPD, THE PRESENT PIPELINE CAPACITY, 1974 PETROLEUM REVENUES WOULD BE \$305 MILLION WITH NO FURTHER INCREASE IN THE REFERENCE PRICE. FOR PURPOSES OF COMPARISON, CONFIDENTIAL

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TOTAL NON-PETROLEUM REVENUES OF ALL GOVERNMENT ENTITIES IN 1972 WERE AN ESTIMATED \$425-450 MILLION (DATA ARE NOT YET AVAILABLE).

5. THE INCREASE IN PETROLEUM REVENUE EARMARKED FOR THE MILITARY WILL BE EVEN SHARPER. THE NATIONAL DEFENSE COUNCIL AND THE ARMED FORCES SHARE 50 PERCENT OF THE REVENUE FROM ROYALTY OIL (THE ELECTRIFICATION INSTITUTE, INECEL, GETS MOST OF THE OTHER 50 PERCENT). EMBASSY ESTIMATES THAT THE MILITARY WILL RECEIVE ABOUT \$16

MILLION IN 1973 FROM THIS SOURCE. IF INDEED THE PRICE OF ROYALTY OIL BECOMES \$6.66 PER BARREL, MILITARY WOULD RECEIVE \$40 MILLION ANNUALLY AT PRODUCTION OF 250,000 BPD. INCREASE OF THIS MAGNITUDE WILL GREATLY INCREASE PROCUREMENT CAPABILITIES OF ARMED FORCES WITHIN CONTEXT OF GROWING GENERAL IMPORT CAPACITY.  
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## Message Attributes

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